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In Need for Change

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Abstract

This individual report intends to identify the most pressing changes the beauty and personal care market is currently facing upon which Beiersdorf needs to react immediately. The digital disruption and the increased demand for organic and naturally produced beauty and personal care products are among the most important market-altering factors. To prevent Beiersdorf from losing market share and be able to compete with indie brands, the company needs to increase the agility in its business model. Three possible solutions are partnerships with influencers, creating an accelerator program and acquiring D2C brands.

Keywords

- Major industry disruption
- Small and disruptive
- Digitalization and social media
- D2C business models

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"The consumer goods industry is in turmoil, [we] need to act now," said Beiersdorf's new CEO Stefan De Loecker in the beginning of 2019, when announcing the downward correction of sales forecasts and detriment of operational margins in the consumer segment.¹ He is pointing out that small and disruptive businesses, offering locally produced, artisanal, and natural products in all consumer categories, are on the rise and are challenging incumbent multinational companies, producing mass-market labels. An analysis conducted by McKinsey proves that De Loecker is not alone with his concern about the upheaval in the consumer goods (hereinafter referred to as CG) industry. Their analysis reveals that 80% of CEOs of leading CG companies see their current business model at risk.² The CG industry is being disrupted by the connected consumer itself. As the spectrum of offerings widens, both in terms of products as well as in terms of engagement and communication channels, brand loyalty weakens, and consumers are getting more empowered.³ E-Commerce will supersede sales in physical stores. According to the World Economic Forum, up until 2026 incumbent retailers will continue to generate most of their revenue through physical stores.⁴ To be able to compete with start-ups, who mainly focus on the digital space to engage with consumers, it is inevitable for incumbents "to innovate and embrace new digitally

¹ RTE. (2019, February 27). *Nivea maker shares drop as CEO says sector in turmoil*. Retrieved from <https://www.rte.ie/news/business/2019/0227/1033143-beiersdorf-warns-on-margins/>.

² Buch, R., Harper, A., Lowrie, J., & Prince, S. (2019, April). *Agile in the consumer-goods industry: The transformation of the brand manager*. McKinsey & Company.

³ Bell Ventures. (2019, October 1). *Top 4 Trends Disrupting the Consumer Goods Industry*. Retrieved from <https://bell.ventures/insights/the-goods-the-bad-and-the-ugly-top-4-trends-disrupting-the-consumer-goods-industry>.

⁴ World Economic Forum. (2017). *Shaping the Future of Retail for Consumer Industries*. World Economic Forum in collaboration with Accenture.

enabled business models”.⁵ The beauty and personal care (hereinafter referred to as BPC) segment of the CG industry has been exhibiting even more extensive structural changes in recent years. The top 7 players account for nearly 40% of global sales in the BPC market, but only capture 2% of the market’s growth.⁶ Market growth is mainly driven by innovative upstart brands, utilizing technology to meet consumers’ needs and offer personalized products and services. Further, today’s better-informed consumers increasingly demand natural products, as well as sustainable and environmentally responsible manufacturing techniques. In recent years, social media platforms have become a powerful channel for brands to engage with consumers, especially from Generation Z and Millennials. Digital-native brands in the BPC market are harnessing the loyal community of influencers to acquire consumers. As brand loyalty is decreasing, loyalty towards influencers is sharply increasing. Understanding and utilizing this phenomenon to reach and engage with consumers is vital.⁷ According to the market intelligence agency Mintel, companies in the BPC market need to act upon the so-called ‘Sub-Zero-Waste’ movement in order to survive in the future.⁸ The increasing awareness about plastic pollution and the damaging impact of single-use plastics are the main drivers behind this movement. Indie brands have a strategic advantage over incumbent BPC companies with regards to reacting upon this movement, as they have evolved their business models and practices around environmentally friendly techniques. Some multinational BPC corporations have recognized the seriousness and extension of

⁵ Wright, O., & Ingilizian, Z. (2017, August 18). *Disruption in consumer industries: How the traditional operating model will be turned inside out*. World Economic Forum.

⁶ Euromonitor International. (2019). *Beauty and Personal Care: World Market for Beauty and Personal Care*.

⁷ J.P. Morgan. (2019). *How Technology is Giving the Beauty Industry a Makeover*.

⁸ Mintel Beauty & Personal Care. (n.d.). *Global Beauty and Personal Care Trends 2030*.

this movement and responded accordingly. Lush, a UK based cosmetics retailer, opened its third packaging free store in Europe (Manchester) in 2019.⁹ The American CG giant P&G partnered with the waste management company TerryCycle to produce recyclable shampoo bottles made of 25% ocean plastic for its brands Head & Shoulders and Herbal Essences. Unilever and L’Oreal announced to commit to 100% recyclable, reusable, or compostable plastic by 2025.¹⁰

Since Stefan De Loecker joined as new CEO, Beiersdorf’s strategic direction has changed fundamentally. He understands the importance of responding to current market conditions with appropriate product or strategy adaptations and anticipating future market developments. Soon after his appointment, Beiersdorf supported the Zero-Waste platform “Loop”, an initiative launched by the waste management company TerraCycle. Loop aims to bring consumers closer to more practical, environmentally friendly and sustainable alternatives to disposable packaging. Furthermore, Beiersdorf commits to 100% recyclable, compostable or reusable packaging by 2025 while simultaneously increasing the use of recycled content in plastic packaging to 25%.¹¹

The main risks associated with Beiersdorf’s current business model are the high dependence on the iconic NIVEA brand as well as La Prairie’s strong performance as main growth driver. It has been difficult for NIVEA to get much traction in the American and Chinese market. Even though NIVEA is the sixth largest personal

⁹ Barr, S. (2019, January 10). *Lush to open first plastic packaging-free store in UK*. Retrieved from <https://www.independent.co.uk/life-style/lush-naked-store-uk-plastic-packaging-environment-nature-manchester-shop-a8721406.html>

¹⁰ Ellen Macarthur Foundation. (2018, January 22). *Eleven companies take major step towards a New Plastics Economy*. Retrieved from <https://www.ellenmacarthurfoundation.org/news/11-companies-take-major-step-towards-a-new-plastics-economy>

¹¹ Beiersdorf AG. (2019). *Beiersdorf commits to sustainable packaging* [Website news]. Retrieved from <https://www.beiersdorf.com/newsroom/press-news/all-news/2019/07/30-beiersdorf-commits-to-sustainable-packaging>

care and cosmetics brand globally,^{12 13} Beiersdorf as a company is a small player in the global CG market.¹⁴

To continue its steady growth of the past, it is vital for Beiersdorf to proactively react to the ongoing disruption in the industry. Even though first steps have been taken, the inherent business model is not agile enough to fight the increasingly fierce competition from new market participants, especially digital-native cosmetics brands. A few options present themselves to Beiersdorf.

1) Partner up with influencers on social media

Up until now Beiersdorf has one-time arrangements with influencers for its brands Nivea and Eucerin. These campaigns are focused on the German market only and are designed for one specific product of a brand. Contrastingly, Beiersdorf's peers and competitors have long-term partnerships with globally known influencers to promote a wide range of their products on an ongoing basis. L'Oreal, for example, is shifting more of their marketing budget from traditional advertisements to partnerships with influencers. The company created a so-called "Beauty Squad" to "reveal latest products, create fun and engaging content as well as attend key beauty events including London Fashion Week, Paris Fashion Week and Cannes Film Festival".¹⁵ The brand claims the Beauty Squad has allowed it "to engage with consumers easily and timely in today's lightning-paced digital environment".¹⁵

There is no common rule on how much BPC companies pay for an influencer

¹² Brand Finance. (July 1, 2019). *Brand value of the leading 10 cosmetic brands worldwide in 2019 (in million U.S. dollars)* [Graph]. In Statista.

¹³ Kantar Millward Brown. (June 11, 2019). *Brand value of the leading personal care brands worldwide in 2019 (in million U.S. dollars)* [Graph]. In Statista.

¹⁴ LZ. (July 4, 2019). *Top 50 FMCG companies worldwide in 2018, based on net sales (in million U.S. dollars)*[Graph]. In Statista.

¹⁵ Roderick, L. (2017, July 6). *L'Oréal Paris ups influencers but admits convincing the board has been 'difficult.'* Marketing Week.

partnership, but a baseline formula exists: \$100 x 10,000 followers + extras = total rate.¹⁶ The extras vary depending on, among others, global reach, partnerships with competitors, engagement rate, client budget, campaign length, and other specifics.¹⁷

2) Establish an own accelerator program to create indie brands from scratch

For incumbent BPC companies it is a less cost-intensive option to incubate or accelerate new companies than to develop new brands in-house.¹⁸ Some of Beiersdorf's competitors shifted their traditional R&D spending to establish own accelerator programs. Sephora launched Sephora Accelerate in 2016. The program includes an initial week-long boot camp, a following six-month period with one-on-one mentoring from leaders in the beauty industry and from Sephora itself, the chance to be granted a low-interest loan and monetary grants as well as a Demo Day at the end.¹⁹ Through Sephora Accelerate, the company established among others the organic skincare brand *LXMI* and the ethical fragrance brand *The 7 Virtues*.¹⁸

3) Acquire direct-to-consumer (D2C) brands

Another way to prevent Beiersdorf from losing market share is to acquire D2C brands and to incorporate them directly into the business model. Most of Beiersdorf's peers understand that the acquisition of new brands is a vital growth driver. Procter & Gamble for example, acquired the natural deodorant brand *Schmidt's Naturals* in December 2017 and the New Zealand-based prestige skincare brand *Snowberry*.¹⁸ All of the above options present a suitable use for Beiersdorf's ever-growing cash position.

¹⁶ Sehl, K. (2019, March 4). *The Complete Guide to Instagram Influencer Rates in 2019*.

¹⁷ Carbone, L. (2019, April 10). *This is How Much Instagram Influencers Really Cost*.

¹⁸ CB Insights. (2018). *13 Trends Shaping the Face of Beauty in 2018*.

¹⁹ Greenwald, M. (2019, March 18). *Sephora Accelerate: Announcing The Latest Cohort and How The Program Has Evolved*.